

CITY OF LA PORTE CITY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2011

Table of Contents

	<u>Page</u>
Officials	3
Independent Auditor's Report	4-5
Management's Discussion and Analysis	6-11
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets – Cash Basis	A 13-14
Governmental Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 15-16
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	C 17
Proprietary Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	D 18
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	E 19
Notes to Financial Statements	20-26
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds	28-29
Notes to Required Supplementary Information – Budgetary Reporting	30
Other Supplementary Information:	<u>Schedule</u>
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1 32-33
Schedule of Indebtedness	2 34-35
Bond and Note Maturities	3 36
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	4 37
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	38-39
Schedule of Findings and Questioned Costs	40-44
Staff	45

City of La Porte City

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Rick Lubben	Mayor	Jan 2014
Todd Butler	Council Member	Jan 2012
Sarah Craft	Council Member	Jan 2012
Mike Spence	Council Member	Jan 2012
Kim Ortiz	Council Member	Jan 2014
Kathy Norris	Council Member	Jan 2014
Jane Whittlesey	Clerk	
Jeffrey Larison	Treasurer	
Matt Craft	Attorney	

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of La Porte City, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of La Porte City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of La Porte City as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our reports dated November 10, 2011 on our consideration of the City of La Porte City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 11 and 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of La Porte City's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2010 (none of which are presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



RIDIHALGH, FUELLING, SNITKER, WEBER & CO., P.C.

November 10, 2011

CITY OF LA PORTE CITY

202 Main Street, La Porte City, Iowa 50651

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of La Porte City provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. It is to be used in conjunction with the City's Annual Report and is intended to explain the significant changes in financial position and differences in operations between the current and prior years.

Using This Annual Report

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis

- introduces the basic financial statements and provides an analytical overview of the City's financial activities

Government-wide Financial Statement

- consists of a Statement of Activities and Net Assets
- provides information about the activities of the City as a whole and presents an overall view of the City's finances

Fund Financial Statements

- tells how governmental services were financed in the short term as well as what remains for future spending
- report the City's operations in more detail than the government-wide statement by providing information about the most significant funds

Notes to Financial Statements

- provide additional information essential to a full understanding of the data provided in the basic financial statements

Required Supplementary Information

- further explains and supports the financial statements with a comparison of the City's budget for the year

Other Supplementary Information

- provides detailed information about the non-major governmental funds

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting is a basis other than generally accepted accounting principals, and does not give effect to accounts receivable, accounts payable and accrued items. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

Reporting the City's Financial Activities

Government-wide Financial Statements:

To aid in the understanding of the Statement of Activities, some additional explanation is needed. All receipts and disbursements are categorized as either governmental activities or business-type activities. **Governmental Activities** are financed primarily by property tax, local option sales tax, road use tax and state and federal grants. They are defined as follows:

Public Safety – includes police operations, fire protection, ambulance service, building inspections and animal control services

Public Works – includes roads, bridges and sidewalks, equipment replacement, street lighting, sanitation, traffic safety, snow removal and street cleaning

Health and Social Services – includes welfare assistance

Culture and Recreation – includes library services, parks, recreation, pool, community center and museum

Community and Economic Development – includes economic development, housing rehab, and tax increment financing

General Government – includes mayor, city council, city clerk, city treasurer, legal services, and city hall administrative and building needs

Debt Service – includes principal and interest payments for debt repayment

Capital Projects – major projects including street and infrastructure improvements, the family aquatic center, and a new housing development known as the Sweet Subdivision

Business Type Activities include the ambulance service and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements:

The City has two kinds of funds:

Governmental funds account for most of the City's basic services and include the General Fund, the Special Revenue Funds such as Road Use Tax and Tax Increment Financing, the Debt Service Fund, the Capital Projects Fund, the Equipment Replacement Fund, and the Trust Funds. The Governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

Proprietary funds are also known as Business-Type funds. When the City charges customers for the services it provides, these services are generally reported as Proprietary funds. These funds, which include Ambulance and Sewer services, are generally self-sufficient. The required financial statements for Proprietary Funds include a statement of cash receipts, disbursements and changes in cash balances.

Basic Financial Statements

Part of the requirements of the Management Discussion and Analysis is to provide a brief discussion of the Basic Financial Statements included in this Report and the information they provide.

- **Statement of Activities and Net Assets – Cash Basis (Exhibit A)**

The first section of the statement presents the eight governmental **Functions / Programs**. *Disbursements* for each are listed in the first column, with *Charges for Service* and other receipts shown to the right. The result is a Net (Expense) or Revenue, which is helpful in determining the extent to which the programs support themselves.

The Next section lists **General Receipts**, including *Property Tax*, *Local Option Sales Tax* and *Unrestricted Interest*. These revenues are not listed in the first section because they are not generated from the direct operation of the functions/programs.

Finally, the report shows the net assets end of year as \$2,143,130, compared to net assets beginning of the year of \$2,169,106, a decrease of \$25,976.

- **Statement of Cash Receipts, Disbursements and Changes in Cash Balances, Governmental Funds (Exhibit B)**

The City maintains ten funds under the “Governmental” classification. The column titled *General* includes activity in the General and the Economic Development funds. The column titled *Other Nonmajor Governmental Funds* includes activity for the Trust I (Employee Benefits) Fund, the TIF Fund, the Low to Moderate Income Fund (required for the Pipho Development TIF Project), and the Trust II Fund (established to track memorials, bequests, and contributions). More detailed information on these nonmajor funds is included on the *Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Non-Major Governmental Funds* (Schedule 1).

- **Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets – Governmental Funds (Exhibit C)**

This reconciles any differences in the Cash Ending Balances or Net Change in Cash from Exhibit A and Exhibit B.

- **Statement of Cash Receipts, Disbursements and Changes in Cash Balances, Proprietary Fund (Exhibit D)**

Proprietary Funds are used to report Business Type Activities (activities that are primarily self-supporting through service charges and user fees). The two proprietary funds for the City are the Ambulance and the Sewer Funds.

- **Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets – Proprietary Funds (Exhibit E)**

This reconciles any differences in the Cash Ending Balances or Net Change in Cash from Exhibit A and Exhibit D.

Budgetary Highlights

Over the course of the fiscal year the City amended its budget only one time. The amendment was approved on May 23rd, 2011 and provided for additional disbursements in City departments. The largest portion of the amendments to expenses (\$165,450) were a direct result of Capital Improvements in the Public Works Department, as the City undertook a rehabilitation project on Cedar St., and saw the completion of railway crossing improvements. Costs related to recovery from the 2008 flood continued, comprising \$137,798 of the expenditure amendments and \$81,097 of the revenue amendments. The majority of flood-related projects were completed in FY11, and the City anticipates closing out the program in FY12.

Other Capital Equipment purchases and Capital Improvements that had an impact on this amendment include purchase of a new police car, sanitary sewer replacement near the Highway 218 Bridge as well as engineering costs related to mandated improvements to the waste water treatment plant. The City received funds from the Federal Emergency Management Administration and Iowa Homeland Emergency Management and Homeland Security for flood related expenditures and had sufficient reserves to absorb the additional costs.

2011 Financial Highlights

- Revenues (not including transfers in) decreased \$462,599 from FY10 to FY11. This decrease is attributable in large part to a reduction in State and Federal grant proceeds for 2008 Flood related activities. In addition, interest income on City investments decreased \$21,876 as rates remained low.
- From FY10 to FY11 disbursements (not including transfers out) decreased \$412,344. The biggest change was seen in the Capital Projects Program which decreased \$696,616 due to reduction in 2008 Flood related activities. This decrease was offset somewhat by a \$232,207 increase in disbursements in the Public Works Department for Capital Improvements.
- The City's total cash basis net assets decreased \$25,976 from June 30, 2010 to June 30, 2011. This net change included a decrease in the Road Use Tax Fund of \$104,293, a result of Capital Projects undertaken during the fiscal year. While the General Fund increased \$77,299, this was due in large part to transfers in from other funds.

The assets of the business type activities of the City decreased \$12,900, with a \$34,543 growth in the Ambulance Fund partially offset by a \$47,443 decrease in the Sewer Fund. The City is currently in the engineering phase of a wastewater treatment plant upgrade, and sewer reserves were used to help finance this project.

The year-end balance of Funds Not Required to be Budgeted decreased \$11,266. This total represents interest, contributions, and payments from the Trust II Fund. Transfers out of this fund were made during the year to partially fund the rehabilitation of the City's old Fire Station by the FFA Historical and Ag Museum and replace the carpeting at City Hall.

Debt Administration

As of June 30, 2011, the City had \$2,450,000 in debt outstanding compared to \$2,785,000 in 2010. No new bonds were issued during this fiscal year.

Outstanding Debt at Year End June 30,

	<u>2011</u>	<u>2010</u>
General obligation capital loan notes (FY06)	\$ 580,000	650,000
General obligation capital loan notes (FY05)	\$1,500,000	1,625,000
General obligation capital loan notes (FY04)	\$ 220,000	290,000
General obligation capital loan notes (FY03)	\$ 150,000	<u>220,000</u>
Total	<u>\$ 2,450,000</u>	<u>2,785,000</u>

The General Obligation Note FY06 was issued for design and construction of a new 30-lot residential development known as the Sweet Subdivision. The General Obligation Note FY05 was issued for the demolition of the existing city pool and construction of the new Family Aquatic Center. The General Obligation Note FY04 was issued for the 2004 street rehabilitation, railroad crossing and Tama Road projects. The General Obligation Note FY03 was issued for the 2003 street rehabilitation project.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$2,450,000 is below its constitutional debt limit of \$5.28 million.

TIF Rebates

In 2006 the State redesigned the TIF certification process. House File 2777 mandates that once TIF indebtedness is certified to the County Auditor, the County Auditor shall provide for TIF increment taxes in subsequent years without further certification, until the amount certified is paid to the municipality. This allows the City to either submit a one-time certification for the total amount to be collected in a TIF district over the life of an agreement, or to certify annually a specific amount to be collected from a TIF district. The City certified TIF debt for three projects in November 2009, to be collected in Fiscal Year 10-11:

Greg & Donna Pipho (\$45,362) – for Sunset Knolls Ninth Addition, the City agreed to pay to the Pipho's property taxes generated from the thirteen lots in this housing division. This is the eighth of ten years for this certification. The TIF fund revenues for this rebate agreement is divided between the amount paid to Greg Pipho as part of the rebate agreement plus the state-required set-aside amount for improvements in low to moderate income areas of the City.

Family Aquatic Center (\$143,000) – when approving the issuance of debt for the new aquatic center, the City Council approved using a combination of TIF funds (\$98,000 FY11) and a debt service levy to make the annual payments on the bonds. This is the sixth of fifteen years for this certification.

A portion of the certified FAC TIF debt (\$45,000) was used to make a loan to satisfy the bond payment for the Sweet Subdivision. Once the Sweet Subdivision starts to realize new value and after the bond payments have been satisfied, we will certify \$45,000 from the Sweet TIF to "pay back" the FAC TIF.

Witham Development Agreement (\$8,321)– the City Council agreed to make the interest payments on an eight-year loan Witham received through Black Hawk Economic Development Corporation. The loan enabled Witham to rebuild and expand the business center following a substantial fire. Economic Development Fund reserves were used to make the interest payments until such time as property taxes on the new value could be recovered. These

reserves will be paid back with the final TIF certification after all interest payments have been made. This is the first year for this certification.

Sweet Subdivision – since no incremental taxes are anticipated in FY11, and because there is a ten-year limit on TIF certifications for residential development, the City will not certify any taxes for this area until construction of more new homes is complete and sufficient incremental value is realized.

The bond payment due FY 2011 was paid with TIF dollars certified from the FAC TIF, and will be “paid back” when all of the bond payment for the Sweet Subdivision have been satisfied.

Economic Factors and Next Year’s Budgets

The City of La Porte City’s elected and appointed officials and department heads considered many factors when setting the FY12 budget, tax rates and fees that will be charged for various City activities.

While property tax valuations increased slightly, the costs associated with providing City services including utilities, employer retirement contributions and workers compensation insurance also increased. In FY10, the City Council adopted a partial self-funding program for employee health insurance in an effort to combat rising health insurance costs. In the first full year of implementation, the City saved approximately \$8,000 in premiums, while paying out \$3700 in claims.

Two lots in the Sweet Subdivision were sold in FY11, generating \$31,719 in revenues. The City used those revenues, TIF Funds and reserves to make the semi-annual bond payments. The City does anticipate additional lot sales will occur in FY12, and will to utilize those revenues, TIF dollars available in the City’s Urban Renewal area and reserves to help make future bond payments.

Contacting The City’s Financial Management

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City’s finances and to show the City’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jane Whittlesey, City Clerk, 202 Main Street, La Porte City, Iowa.

Basic Financial Statements

City of La Porte City
Statement of Activities and Net Assets - Cash Basis
As of and for the year ended June 30, 2011

Functions / Programs:	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Public safety	\$ 556,456	-	55,634	7,855
Public works	702,985	165,446	238,957	5,709
Health and social services	7,879	-	-	-
Culture and recreation	358,316	57,136	101,155	3,151
Community and economic development	37,865	-	1,218	11
General government	126,911	25,942	101,668	37
Debt service	444,305	-	40	-
Capital projects	89,981	-	892	192,554
Total governmental activities	2,324,698	248,524	499,564	209,317
Business type activities:				
Sewer	220,051	209,959	-	-
Ambulance	59,605	110,656	-	-
Total business type activities	279,656	320,615	-	-
Total	\$ 2,604,354	569,139	499,564	209,317
General Receipts:				
Property tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Unrestricted interest on investments				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Nonexpendable:				
Trust fund				
Expendable:				
Urban Renewal purposes				
Debt service				
Streets				
Other purposes				
Assigned				
Unrestricted				
Total cash basis net assets				

See notes to financial statements

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(492,967)	-	(492,967)
(292,873)	-	(292,873)
(7,879)	-	(7,879)
(196,874)	-	(196,874)
(36,636)	-	(36,636)
736	-	736
(444,265)	-	(444,265)
103,465	-	103,465
(1,367,293)	-	(1,367,293)
-	(10,092)	(10,092)
-	51,051	51,051
-	40,959	40,959
(1,367,293)	40,959	(1,326,334)
543,424	-	543,424
196,336	-	196,336
211,554	-	211,554
278,139	-	278,139
-	5,305	5,305
62,326	3,274	65,600
62,438	(62,438)	-
1,354,217	(53,859)	1,300,358
(13,076)	(12,900)	(25,976)
1,768,230	400,876	2,169,106
\$ 1,755,154	387,976	2,143,130
\$ 28,603	-	28,603
96,264	-	96,264
1,214	-	1,214
159,049	-	159,049
61,704	-	61,704
931,417	-	931,417
476,903	387,976	864,879
\$ 1,755,154	387,976	1,278,251

City of La Porte City
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2011

	Special Revenue			
	General	Equipment Replacement	Road Use Tax	Debt Service
Receipts:				
Property tax	\$ 415,926	-	-	211,554
Tax increment financing collections	-	-	-	-
Other city tax	282,537	-	-	665
Licenses and permits	22,224	-	-	-
Use of money and property	17,941	9,489	-	40
Intergovernmental	193,255	35,535	222,604	-
Charges for service	226,300	-	-	-
Miscellaneous	64,441	4,975	-	-
Total receipts	1,222,624	49,999	222,604	212,259
Disbursements:				
Operating:				
Public safety	511,488	-	-	-
Public works	309,018	-	354,335	-
Health and social services	7,879	-	-	-
Culture and recreation	328,876	-	-	-
Community and economic development	6,852	-	-	-
General government	114,176	-	-	-
Debt service	-	-	-	444,305
Capital projects	-	-	-	-
Total disbursements	1,278,289	-	354,335	444,305
Excess of receipts over disbursements	(55,665)	49,999	(131,731)	(232,046)
Other financing sources (uses):				
Operating transfers in	212,467	102,253	27,438	217,629
Operating transfers out	(79,503)	(174,968)	-	-
Total other financing sources (uses)	132,964	(72,715)	27,438	217,629
Net change in cash balances	77,299	(22,716)	(104,293)	(14,417)
Cash balances beginning of year	504,326	660,417	263,342	15,631
Cash balances end of year	\$ 581,625	637,701	159,049	1,214
Cash Basis Fund Balances				
Nonexpendable	\$ -	-	-	-
Restricted for:				
Urban Renewal purposes	-	-	-	-
Debt service	-	-	-	1,214
Streets	-	-	159,049	-
Other purposes	40,054	-	-	-
Assigned for capital purchases	64,510	637,701	-	-
Unrestricted	477,061	-	-	-
Total cash basis fund balances	\$ 581,625	637,701	159,049	1,214

Trust and Agency Trust Funds	Other Nonmajor Governmental Funds	Total
-	121,969	749,449
-	196,336	196,336
-	466	283,668
-	-	22,224
2,599	2,062	32,131
4,398	160,835	616,627
-	-	226,300
21,314	31,719	122,449
28,311	513,387	2,249,184
-	44,968	556,456
-	39,632	702,985
-	-	7,879
11,520	17,920	358,316
-	31,013	37,865
3,785	8,950	126,911
-	-	444,305
-	89,981	89,981
15,305	232,464	2,324,698
13,006	280,923	(75,514)
-	40,268	600,055
(24,272)	(258,874)	(537,617)
(24,272)	(218,606)	62,438
(11,266)	62,317	(13,076)
181,154	143,360	1,768,230
169,888	205,677	1,755,154
28,603	-	28,603
-	96,264	96,264
-	-	1,214
-	-	159,049
-	21,650	61,704
141,285	87,921	931,417
-	(158)	476,903
169,888	205,677	1,755,154

City of La Porte City

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Governmental Funds

As of and for the year ended June 30, 2011

Total governmental funds cash balances (page 16)	\$1,755,154
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The city does not have an internal service fund.
Therefore there are no reconciling items.

-

Cash basis net assets of governmental activities (page 14)	<u>\$1,755,154</u>
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Net change in cash balances (page 16)	\$ (13,076)
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The city does not have an internal service fund.
Therefore there are no reconciling items.

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Change in cash balance of governmental activities (page 14)	<u>\$ (13,076)</u>
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See notes to financial statements

City of La Porte City

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2011

	Sewer	Ambulance	Total
Operating receipts:			
Use of money and property	\$ 5,087	218	5,305
Intergovernmental	-	3,368	3,368
Charges for service	209,959	107,288	317,247
Miscellaneous	-	3,274	3,274
Total operating receipts	215,046	114,148	329,194
Operating disbursements:			
Business type activities	220,051	59,605	279,656
Total operating disbursements	220,051	59,605	279,656
Excess (deficiency) of operating receipts over (under) operating disbursements	(5,005)	54,543	49,538
Operating transfers in (out)	(42,438)	(20,000)	(62,438)
Net change in cash balances	(47,443)	34,543	(12,900)
Cash balances beginning of year	310,241	90,635	400,876
Cash balances end of year	\$ 262,798	125,178	387,976
Cash Basis Fund Balances			
Unrestricted	\$ 262,798	125,178	387,976
Total cash basis fund balances	\$ 262,798	125,178	387,976

See notes to financial statements

City of La Porte City

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Proprietary Fund

As of and for the year ended June 30, 2011

Total enterprise funds cash balances (page 18)	\$ 387,976
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The city does not have an internal service fund.
Therefore there are no reconciling items.

-

Cash basis net assets of business type activities (page 14)	<u>\$ 387,976</u>
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Net change in cash balances (page 18)	\$ (12,900)
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The city does not have an internal service fund.
Therefore there are no reconciling items.

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Change in cash balance of business type activities (page 14)	<u>\$ (12,900)</u>
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See notes to financial statements

City of La Porte City

Notes to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies

The City of La Porte City is a political subdivision of the State of Iowa located in Black Hawk County. It was first incorporated in 1871 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, general government services, as well as garbage services which are included in the general fund. The City also provides sewer utilities for its citizens, as well as ambulance services.

A. Reporting Entity

For financial reporting purposes, the City of La Porte City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

These financial statements present the City of La Porte City (the primary government) and excludes all component units. A component unit is an entity which is legally separate from the City, but is so intertwined with the City that they are, in substance, part of the City. However, the financial transactions of this component unit has not been displayed because they are not material or use a different basis of accounting.

The La Porte City Utilities, a component unit of the city, is established under Chapter 388 of the Code of Iowa. The La Porte City Utilities is legally separate from the City, but has the potential to provide specific benefits to, or impose specific burdens on the City. The Utility is governed by a three member board appointed by the Mayor and approved by the City Council. La Porte City Utilities is a public utility providing electrical service to the citizens of La Porte City. Complete financial statements can be obtained from the Utility's administrative office.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: City of Waterloo Building Department, Townships of the following: Big Creek, Spring Creek, Eagle Poyner, Cedar and Poyner in Black Hawk County, Bruce and Cedar in Benton County, Tri-County Drug Task Force, Northeast Iowa Response Group, Mutual Aid Fire – Buchanan County, Digital Data – Black Hawk County, Criminal Justice Info System, Black Hawk Consolidated Public Safety Communications Agreement, Mutual Aid Fire – Black Hawk County, Union Community School District – Tennis Courts, Use of Buses, and Use of Swimming Pool, Mutual Aid Fire – City of Waterloo, and Mutual Aid Fire – Covenant Health System.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

The Special Revenue – Equipment Replacement Fund is utilized as a savings fund for large equipment purchases for each department.

The Special Revenue – Road Use Fund is used for tracking road construction and maintenance.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Trust and Agency - Trust Fund is utilized to account for the contributions, fundraisers, and grants for City departments and expenditures by those departments for special items.

The City reports the following major proprietary funds:

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Ambulance Fund accounts for the operations and user fees for Ambulatory services provided by the City.

C. Measurement Focus and Basis of Accounting

The City of La Porte City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements did not exceed the amounts budgeted in any function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of

the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments at June 30, 2011 are as follows:

Type	Carrying Amount	Fair Value	Maturity
Certificates of Deposit	<u>\$ 511,386</u>	<u>\$ 511,386</u>	<u>Various Dates</u>

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$106,891 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation notes are as follows:

Year Ending June 30,	General Obligation Notes	
	Principal	Interest
2012	350,000	95,153
2013	355,000	81,965
2014	290,000	68,352
2015	220,000	57,062
2016	230,000	48,733
2017- 2021	1,005,000	112,082
Total	<u>\$ 2,450,000</u>	<u>463,347</u>

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund.

During the year ended June 30, 2007 the Council approved an interfund loan from the Sewer Fund to the Economic Development Fund for \$90,000. There were no payments made during the year and the balance of the loan remaining to be paid is \$45,000.

During the year ended June 30, 2009 the Council approved an interfund loan from the Sewer Fund to the Special Revenue – Equipment Replacement Fund for \$41,000 and an interfund loan of \$39,002.75 from the General Fund to the Debt Service Fund. As of June 30, 2011, none of the balances of those two inter-fund loans had been paid.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of annual covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2011, 2010, and 2009 were \$44,363, \$40,695, and \$36,993, respectively, equal to the required contributions for each year

(5) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 12 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a partially self-insured plan with Wellmark Blue Cross/Blue Shield. Retirees under age 65 pay the full cost of the premium for the medical/prescription drug benefits. Effective May 1, 2010, the City increased the deductibles for the plan from \$750 for single and \$1,500 for family to \$1,500 for single and \$3,000 for family and it self funds the increase in deductible for each participant. A third party administrator, Employee Benefit Systems, coordinates the self funded portion of the plan.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The most recent active member monthly premiums are \$417.37 for single coverage \$788.56 for employee plus spouse, \$728.88 for employee plus children, and \$1,181.69 for family coverage. The City pays for 90% of the monthly premium and the employee is responsible for 10% of the monthly premium. For the year ended June 30, 2011, the City contributed \$93,806 to Wellmark Blue Cross/Blue Shield and \$843 to Employee Benefit Systems on behalf of plan members.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2011, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 2,927
Sick leave	<u>42,531</u>
Total	<u>\$ 45,458</u>

This liability has been computed based on rates of pay in effect at June 30, 2011.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Permanent	\$ 24,273
	Special Revenue	
	Employee Benefits	7,976
	Equipment Replacement	174,968
	Capital Projects	
	2008 Flood Buyout	5,250
Special Revenue		
Equipment Replacement	General	67,253
	Sewer	15,000
	Ambulance	20,000
Low to Moderate Income	Special Revenue	
	Tax Increment Financing	16,198
Road Use Tax	Sewer	27,438
Debt Service	Special Revenue	
	Tax Increment Financing	148,298
	Capital Projects	57,081
	General	12,250
Capital Projects	Capital Projects	
Flood Buyout	CDBG Buyout Project	24,070

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(8) Related Party Transactions

The City had business transactions between the City and City officials totaling \$15,029 during the year ended June 30, 2011.

(9) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Deficit Fund Balance

The Capital Projects Fund – CDBG Buyout Project had a deficit balance of \$158 at June 30, 2011. The deficit balance was a result of a transfer from the fund to the Capital Projects Fund - 2008 Flood Buyout Project Fund.

(11) Litigation

The City is not subject to any pending litigation.

(12) Subsequent Events

There were no subsequent events.

Required Supplementary Information

City of La Porte City
 Budgetary Comparison Schedule
 of Receipts, disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 749,449	-	-
Tax increment financing collections	196,336	-	-
Other city tax	283,668	-	-
Licenses and permits	22,224	-	-
Use of money and property	32,131	5,305	2,599
Intergovernmental	616,627	3,368	4,398
Charges for service	226,300	317,247	-
Miscellaneous	122,449	3,274	21,314
Total receipts	2,249,184	329,194	28,311
Disbursements:			
Public safety	556,456	-	-
Public works	702,985	-	-
Health and social services	7,879	-	-
Culture and recreation	358,316	-	11,520
Community and economic development	37,865	-	-
General government	126,911	-	3,785
Debt service	444,305	-	-
Capital projects	89,981	-	-
Business type activities	-	279,656	-
Total disbursements	2,324,698	279,656	15,305
Excess of receipts over disbursements	(75,514)	49,538	13,006
Other financing sources (uses), net	62,438	(62,438)	(24,272)
Excess of receipts and other financing sources over disbursements and other financing uses	(13,076)	(12,900)	(11,266)
Balances beginning of year	1,768,230	400,876	181,154
Balances end of year	\$ 1,755,154	387,976	169,888

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
749,449	752,366	752,366	(2,917)
196,336	195,913	198,913	(2,577)
283,668	283,982	283,982	(314)
22,224	21,715	21,715	509
34,837	53,000	53,000	(18,163)
615,597	365,924	492,927	122,670
543,547	542,675	542,675	872
104,409	34,131	92,490	11,919
2,550,067	2,249,706	2,438,068	111,999
556,456	699,063	727,614	171,158
702,985	608,946	810,896	107,911
7,879	6,744	8,994	1,115
346,796	293,388	405,008	58,212
37,865	54,138	54,452	16,587
123,126	138,064	156,164	33,038
444,305	444,106	444,306	1
89,981	-	137,798	47,817
279,656	274,731	362,696	83,040
2,589,049	2,519,180	3,107,928	518,879
(38,982)	(269,474)	(669,860)	630,878
24,272	51,000	45,425	(21,153)
(14,710)	(218,474)	(624,435)	609,725
1,987,952	2,093,849	2,169,104	(181,152)
1,973,242	1,875,375	1,544,669	428,573

City of La Porte City

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund, the Permanent and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted revenues by \$188,362 and budgeted disbursements by \$588,748. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements did not exceed the amounts budgeted in any function.

Other Supplementary Information

City of La Porte City

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2011

	Special Revenue			Capital Projects
	TIF	Employee Benefits	Low to Moderate Income	Capital Projects
Receipts:				
Property tax	\$ 196,336	121,969	-	-
Other city tax	-	466	-	-
Use of money and property	36	-	1,134	892
Intergovernmental	-	-	-	-
Miscellaneous	-	-	-	31,719
Total receipts	196,372	122,435	1,134	32,611
Disbursements:				
Operating:				
Public safety	-	44,968	-	-
Public works	-	39,632	-	-
Culture and recreation	-	17,920	-	-
Community and economic develop	31,013	-	-	-
General government	-	8,950	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	31,013	111,470	-	-
Excess (deficiency) of receipts over (under) disbursements	165,359	10,965	1,134	32,611
Other financing sources:				
Operating transfers in (out)	(164,496)	(7,976)	16,198	(57,082)
Net change in cash balances	863	2,989	17,332	(24,471)
Cash balances beginning of year	1,875	12,216	76,194	112,392
Cash balances end of year	\$ 2,738	15,205	93,526	87,921
Cash Basis Fund Balances				
Restricted	\$ 2,738	15,205	93,526	-
Assigned for capital projects	-	-	-	87,921
Unrestricted	-	-	-	-
Total cash basis fund balances	\$ 2,738	15,205	93,526	87,921

See accompanying independent auditor's report

Capital Projects		
2008 Flood Buyout	CDBG Buyout Project	Total
-	-	318,305
-	-	466
-	-	2,062
120,688	40,147	160,835
-	-	31,719
120,688	40,147	513,387
-	-	44,968
-	-	39,632
-	-	17,920
-	-	31,013
-	-	8,950
-	-	-
73,746	16,235	89,981
73,746	16,235	232,464
46,942	23,912	280,923
18,820	(24,070)	(218,606)
65,762	(158)	62,317
(59,317)	-	143,360
6,445	(158)	205,677
6,445	-	117,914
-	-	87,921
-	(158)	(158)
6,445	(158)	205,677

City of La Porte City
Schedule of Indebtedness
Year ended June 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation note:			
G.O. Capital Loan Note	May 6, 2003	1.60% - 3.80%	600,000
G.O. Capital Loan Note	July 1, 2004	2.95% - 4.25%	600,000
G.O. Loan Notes	December 1, 2005	3.75% - 4.10%	2,080,000
G.O. Capital Loan Notes	October 18, 2006	3.75% - 4.00%	920,000

See accompanying independent auditor's report

Schedule 2

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 220,000	-	70,000	150,000	7,930	-
290,000	-	70,000	220,000	11,723	-
1,625,000	-	125,000	1,500,000	62,768	-
650,000	-	70,000	580,000	25,085	-
<u>\$ 2,785,000</u>	<u>-</u>	<u>335,000</u>	<u>2,450,000</u>	<u>107,505</u>	<u>-</u>

City of La Porte City
Bond and Note Maturities

June 30, 2011

Year Ending June 30,	General Obligation Notes			
	Capital Loan Note		Capital Loan Note	
	Issued May 6, 2003		Issued July 1, 2004	
	Interest Rates	Amount	Interest Rates	Amount
2012	3.60	\$ 75,000	4.00	70,000
2013	3.80	75,000	4.10	75,000
2014		-	4.25	75,000
2015		-		-
2016		-		-
2017		-		-
2018		-		-
2019		-		-
2020		-		-
2021		-		-
Total		<u>\$ 150,000</u>		<u>220,000</u>

Year Ending June 30,	Loan Note		Capital Loan Note		
	Issued December 1, 2005		Issued October 18, 2006		
	Interest Rates	Amount	Interest Rates	Amount	Total
2012	3.75	130,000	3.75	75,000	350,000
2013	3.75	130,000	3.75	75,000	355,000
2014	3.75	135,000	3.75	80,000	290,000
2015	3.75	140,000	3.80	80,000	220,000
2016	3.80	145,000	3.85	85,000	230,000
2017	3.85	150,000	3.90	90,000	240,000
2018	3.90	160,000	4.00	95,000	255,000
2019	3.95	165,000	4.00	-	165,000
2020	4.00	170,000		-	170,000
2021	4.10	175,000		-	175,000
		\$ 1,500,000		580,000	2,450,000

See accompanying independent auditor's report

City of La Porte City

Schedule of Receipts by Source and Disbursements By Function
All Governmental Funds

For the Last Nine Years

	2011	2010	2009	2008	2007	2006	2005	2004	2003
Receipts:									
Property tax	\$ 945,785	904,812	897,581	856,316	887,614	667,418	608,911	526,401	510,753
Other city tax	283,668	287,309	286,569	281,565	247,187	258,843	239,723	227,623	213,365
Licenses and permits	22,224	20,149	21,486	18,507	17,658	19,267	21,017	19,224	22,808
Use of money and property	32,131	43,394	53,474	75,838	105,519	70,627	26,705	14,861	23,291
Intergovernmental	616,627	1,135,073	497,195	614,873	335,086	307,978	336,072	1,143	330,320
Charges for service	226,300	227,885	224,203	216,143	227,371	210,834	182,840	289,921	149,374
Miscellaneous	122,449	93,161	54,133	71,867	542,220	242,964	100,810	455,952	238,481
Total	\$ 2,249,184	2,711,783	2,034,641	2,135,109	2,362,655	1,777,931	1,516,078	1,535,125	1,488,392
Disbursements:									
Operating:									
Public safety	\$ 556,456	474,565	449,169	629,194	420,893	422,394	454,592	526,398	453,134
Public works	702,985	470,778	459,988	549,433	502,495	509,789	378,959	853,197	190,071
Health and social services	7,879	6,294	4,232	5,194	5,044	4,994	1,869	1,869	1,819
Culture and recreation	358,316	362,941	338,779	259,707	318,361	218,355	277,229	257,489	206,124
Community and economic development	37,865	80,512	97,042	155,150	236,803	251,901	15,855	4,599	51,492
General government	126,911	109,510	115,938	107,489	122,229	107,464	107,212	109,594	183,215
Debt service	444,305	445,845	441,755	441,900	439,923	199,105	98,244	19,258	199,631
Capital projects	89,981	786,597	5,040	376,665	867,407	2,215,782	485,788	237,640	104,646
Total	\$ 2,324,698	2,737,042	1,911,943	2,524,732	2,913,155	3,929,784	1,819,748	2,010,044	1,390,132

See accompanying independent auditor's report

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of La Porte City, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated November 10, 2011. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of La Porte City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of City of La Porte City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of La Porte City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of La Porte City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-11, II-B-11, and II-C-11 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-D-11 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of La Porte City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of La Porte City's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit City of La Porte City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of City of La Porte City and other parties to whom City of La Porte City may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of City of La Porte City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



RIDIHALGH, FUELLING, SNITKER, WEBER, & CO., P.C., CPA'S

November 10, 2011

City of La Porte City
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

City of La Porte City
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

- II-A-11 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- II-B-11 Preparation Financial Statements - The City of La Porte City, Iowa does not employ an accounting staff with the technical expertise to prepare its financial statements (including footnotes disclosures) in conformity with accounting principles general accepted in the United States of America; therefore, it relies on its auditors to prepare such statements.

Recommendation – The City should conform with generally accepted accounting principles.

Response – The City feels that having the auditors draft the financial statements and notes is a tolerable situation. Internal financial statements are prepared monthly for reporting and decision making purposes. The requirements and form of the audited statements are different than the internal needs and change occasionally. Given the size of the organization, it is helpful to rely on the expertise of the auditors to monitor those requirements.

Conclusion – Response accepted.

- II-C-11 Reconciliation of Utility Billings, Collections and Delinquencies – A delinquent accounts listing was not retained from La Porte City Utilities.

Recommendation – A listing of delinquent accounts should be prepared on a monthly basis. The Council or a Council-designated independent person should monitor delinquencies.

City of La Porte City

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Response – We will consider this.

Conclusion – Response accepted.

- II-D-11 Separately Maintained Records – The Police Department maintains a bank account separate from the City Clerk's accounting records. The transactions and resulting balances of this account were not recorded in the City Clerk's accounting records and were not reported to the City Council each month.

Recommendation – Chapter 384.20 of the Code of Iowa states in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, expended for any city purpose, by any city officer, employee, or other person, and which show the receipt, use, and disposition of all city property." For better accountability, financial and budgetary control, the financial activity and balance of all City accounts should be included in the City's accounting records, including budget reports, and should be reported to the City Council on a monthly basis.

Response – The City will look into this and attempt to integrate the accounts into the City's accounting system.

Conclusion – Response accepted.

City of La Porte City

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part III: Other Findings Related to Statutory Reporting:

- III-A-11 Certified Budget – Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation. Disbursements during the year ended June 30, 2011 did not exceed the amounts budgeted in any function.
- III-B-11 Questionable Disbursements – We noted no questionable disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- III-C-11 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- III-D-11 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Mike Spence, Council Member, Co-owner of Spence Tech Solutions	Website design	\$ 190
Jane Whittlesey, Council Member, Co-owner of La Porte City Printing & Design,	Purchase office supplies	1,205
Jane Whittlesey, Council Member, Co-owner of The Progress Review	City's official newspaper	4,591
Sarah Craft, Council Member, Husband is attorney with firm Dutton, Braun, Staack, & Hellman, City's Attorney	Attorney fees	9,044

In accordance with Chapter 362.5(11) of the Code of Iowa, the first and second transactions do not appear to represent a conflict of interest since the amounts are for less than \$2,500 each.

In accordance with Chapter 362.5(6) of the Code of Iowa, the third transaction does not appear to represent a conflict of interest since the City has designated The Progress Review as it's official newspaper.

In accordance with Chapter 362.5(5) of the Code of Iowa, the fourth transaction does not appear to represent a conflict of interest since the City has designated Dutton, Braun, Staack, & Hellman their City attorney and these professional services are not customarily awarded by competitive bid.

City of La Porte City

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

- III-E-11 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- III-F-11 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- III-G-11 Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.
- III-H-11 Payment of General Obligation Bonds – The City properly paid for its general obligation bonds out of the Debt Service fund.
- III-I-11 Financial Condition – The Capital Projects – CDBG Buyouts Fund had a deficit balance of \$158 at June 30, 2011.

Recommendation – The City should eliminate this deficit in order to return this fund to a sound financial position

Response – The deficit was due to a transfer from this fund to the Capital Projects – 2008 Flood Buyout Fund.

Conclusion – Response accepted.

City of La Porte City

Staff

This audit was performed by:

Gina E. Trimble, CPA, Manager
Dana Elliott, CPA, Staff